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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

DOCUMENT NO. **8**

NO CHANGE IN CLASS.

LI DECLASSIFIED

CLASS. CHANGED TO: TS S **C**

NEXT REVIEW DATE:

AUTH: WP 70-2

DATE **11-21-71** REVIEWER: 372044

INTELLIGENCE HIGHLIGHTS NO. 17
WEEK OF 31 AUGUST - 6 SEPTEMBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The return to Tokyo after a thirteen month absence, of Lt. Gen. Derevyanko, the USSR member of the Allied Council for Japan, presages increased Soviet-activity in Japan (page 3).

A sizeable reduction or possibly a major withdrawal of Soviet forces from North Korea is indicated by the pattern of recent events (page 3).

While the military situation in China remains quiet, Chiang Kai-shek has indicated his concern over future developments by requesting additional US aid for his armies in North China (page 4). The Communists have further consolidated their position in that area by recently establishing a People's North China Government (page 4). In external relations, there is evidence that China is adopting a stiffer attitude vis-a-vis the USSR (page 5).

In Indochina the indecisive French policy is expected to lead to a more critical situation (page 7).

Unless the Dutch or Republican Government take precipitate action the US Delegation of the UN Good Offices Committee in Indonesia may still have an opportunity to present a compromise agreement (page 7).

Trouble in South Siam has led to UK and Siamese cooperation on border control (page 8).

NOTE: In succeeding section of this Weekly, the following marginal notations are used:

- (1) Double asterisk (**) --placed at beginning and end of information based solely on "S/S distribution" series.
- (2) Single asterisk (*) --to flag item containing "S/S distribution" series.
- (3) "A", "B", or "C" --importance, in B/TE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

The US Embassy in Rangoon, in view of the development of serious difficulties between Karens and Burmans, has recommended delaying action on a request for large quantities of US arms and equipment.(page 9).

The amnesty merry-go-round in the Philippines has entered a decisive stage as result of a Huk leader's support of Soviet policy (page 10).

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JAPAN

Derevyanko's return presages increased Soviet-activity in Japan. Lieutenant General Kuzma N. Derevyanko, the USSR member of the Allied Council for Japan, returned to Tokyo on 31 August, 1948 after a thirteen months absence in the USSR. Undoubtedly Derevyanko returns from Moscow thoroughly indoctrinated with the latest political strategy and party lines. The Soviets in an increased effort to embarrass the Occupation may be expected to concentrate on activity in the Allied Council for Japan which they utilize as a sounding-board and political guidance to the Japanese Communist Party (JCP). Party activity may now be expected to multiply in the form of: (1) more outspoken criticism of the Occupation; (2) increased labor agitation directed against Japanese Government restrictions on Government Employees' unions; and (3) continued public criticism of the Government for Japan's present economic conditions.

"B"

Coincidental with Derevyanko's return, the JCP on 1 September demanded, for the first time, an early peace treaty. The Party demands, appealing to nationalistic sentiments, include the complete withdrawal of occupation forces and complete economic and political independence, the recognition of Japan's right for self-defense and the restoration of all islands that racially and historically belong to Japan.

KOREA

A sizeable reduction or possibly a major withdrawal of Soviet forces from North Korea is indicated by the pattern of recent events. Movements of Soviet troops and dependents started early in May 1948 and on 8 June the Soviet High Command announced that there would be a reduction in the Soviet Army in North Korea. Analysis of reports of truck and rail movements of Soviet personnel prior and subsequent to the 8 June announcement, reduction in Soviet officer strength, command changes, transfers of Soviet equipment to the North Korean People's Army, the gradual replacement of Soviet Army units by People's Army contingents at the 38th Parallel, the 25 August election to make official the existing North Korean government and the growing insistence in Soviet propaganda calling for withdrawal of all foreign troops from Korea suggest the consolidation of Soviet troops to permit easy withdrawal in the near future. Such a move would be logical and well timed, considering that the Soviets already have accomplished such objectives as the institution of a Soviet-type Government, the creation and training of an army, the enactment of social reforms, and police control of the populace. The efficient execution of the 25 August election, made to appear as including both North and South Korea, and the withdrawal of most of Soviet forces in North Korea could be strong diplomatic and propaganda arguments at the forthcoming United Nations session in Paris.

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CHINA

Nanking requests military aid for North China. CHIANG Kai-shek has indicated to top US officials his desire to increase shipments of arms and equipment to North China. The Generalissimo's apparent reversal vis-a-vis North China is probably based on the realization that further failure on the part of the Nanking Government to make some attempt to alleviate the currently precarious situation of the North China forces will undoubtedly lead to complete alienation of the northern leaders with the resultant realization of North China separatism and the possible formation of a North China coalition with the Communists. Further, the loss of North China would necessitate the cancellation of the currently recommended ECA program in that area, with a resultant increasing US reluctance to continue assistance to the disintegrating Nanking regime.

"A"

No major actions disturbed the general military quiet pervading the civil war fronts of China during the past week. The Nationalists enjoyed some local successes, especially in the mid-Han region of northwest Hupeh where they recaptured Iachokou and Paiho. Apparently coal shipments from the Kailan mines were the only real casualty of the recent, well-publicized attempt by Fu Tso-yi to drive the Communists from eastern Hopeh. Requisitions by the military of available rolling stock on the Tientsin-Chinhsien Railroad resulted in a virtual curtailment of shipments for the period of the drive. Fu, lacking adequate numbers of regulars with which to effectively garrison newly won areas, has been forced to withdraw and the Communists are now returning to these old base areas. Thus the status quo ante has been restored: the Nationalists, weakened by a divided command, are unable to prevent periodic Communist interdiction of the vital coastal rail line from Tientsin to Chinhsien.

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A Communist North China People's Government has been formed as a result of the North China Provisional People's Representative Congress. The Congress comprised 541 elected representatives including Democratic League members, Moslem leaders and delegates from organizations in Nationalist as well as Communist areas. The Moslem minority elected their own representatives which indicates that the Chinese Communists are utilizing a minority policy resembling that of the USSR. The Congress elected 27 persons to a North China Government Council with 12 additional seats to be filled by members from areas yet to be "liberated". Drafts for organization of the new government were adopted at the meeting. The formation of this government is a milestone in Chinese Communist organization and, according to the Communists, is a forerunner of an "All-China People's Government." The status and jurisdiction of this government is not clear, but the Communists appear to be making progress in consolidating their administrative machinery.

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Construction on the Dairen-Kirin Railway is being pushed by the Soviets [redacted] The arrival of increasing numbers of Soviet workmen, railway officials and families in the area appears to be linked with the railway construction. Russian tanks and trucks were also reported in the area. While the nature and extent of Soviet activity is a highly speculative issue, this is the first report of Soviet railroad construction that may be given some credence. The feverish activity on the railroad, [redacted]

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[redacted] may be between Kirin and Meihokou, probably aimed at opening a supply route to Dairen. The opening of such a route is dependent, however, on the Communist capture of Mukden since construction of a railroad bypassing this key city would be extremely difficult.

A more firm Chinese Government attitude toward the USSR, on the surface at least, may be seen in Nanking's decision to serve notice of termination of the Sino-Soviet Air Agreement of 1939, and in the report that the Soviet Ambassador and the Chinese Foreign Minister have recently held several conferences vis-a-vis future Sino-Soviet relations.

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Under the provisions of the Sino-Soviet Air Agreement of 1939 the Alma Ata-Hami Air Line, routed via Tihwa and Ining, in Sinkiang was established. This arrangement was ostensibly a joint Sino-Soviet enterprise but actually proved to be a Soviet monopoly with the Chinese being excluded from administrative and operational functions of the air line.

In Manchuria the joint Sino-Soviet operation of the Chinese Changchun Railway, as provided in the Sino-Soviet Treaty of 1945, has long been a farce. No vestige of joint control exists, nor has any effective Chinese administration ever been allowed in the closed port of Dairen.

Although the National Government now appears to be disposed to resist these Soviet encroachments, it is believed that the Government will not be adamant in insisting on China's sovereignty and treaty rights in any attempt to nullify these penetrations. In the final analysis Nanking will probably agree to some face saving compromise which will not essentially weaken the Soviet position vis-a-vis China.

The outcome of the National Government's new economic program--a desperate gamble to stave off runaway inflation--still remains in question. The new currency and economic controls will, at best, provide the Government with a breathing spell during which it may be able to attack some fundamental economic problems. The grave danger is loss of public confidence in the new money, resulting in resumption of the inflationary spiral, and an inevitable economic collapse of the present Government.

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To strengthen the new currency, the Government will use the foreign currencies and precious metals exchanged for gold yuan as additional "hard" backing. The Government also has blockaded Shanghai to prevent the flight

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of commodities, gold, silver, and foreign exchange; is attempting to supervise commercial banks more closely; and reduce public expenditures. An earnest effort apparently is being made to register private Chinese holdings abroad.

Meanwhile, the program is being imperiled by those persons who would seem to gain most by preserving the National Government; big businessmen, civil and military officials, and political hangers-on. Already there is evidence of large-scale hoarding and speculation. Substantiated reports indicate highly placed individuals made huge profits on the currency conversion. Although the Government has made some arrests, there is considerable doubt that charges will be pressed against the more powerful, hence more flagrant offenders.

Since large-scale hoarding and speculation in commodities are forces which can motivate inflation, and since any substantial price increases will be reflected in a general flight from the gold yuan to commodities, the activities of the corrupt, shortsighted elements in the National Government contain the seeds of early collapse of the new currency.

Inclusion of North China in the allocation of US Aid Reconstruction funds was announced by ECA on 1 Sep 48. The first projects approved by ECA were allocated approximately \$1,000,000 each. They are the Kailan Mining Administration, the Tientsin-Peiping Power Company, the Yangtze Power Company and the Taiwan Sugar Company. Although small, these grants will be sufficient to ensure their continued operation. The Kailan Mining Administration is perhaps the most urgent reconstruction project approved, as its equipment has deteriorated so far that a breakdown of mining operations is threatened.

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INDOCHINA

Indecisive French policy expected to lead to continuing deterioration. "B"
Upon his return to Saigon from France on 2 September, French High Commissioner Emile Bollaert reiterated his position that the 19 August French Assembly vote was practically equivalent to ratification of the 5 June Franco-Vietnamese protocol. Despite this statement, however, reaction in Indochina by some members of General Xuan's provisional government continued to be that of fear and discouragement and included threats of resignation. The position of the Socialist Party in France, which insists that negotiations must be conducted with "all spiritual and political families of Vietnam..... who have any authority in Indochina" apparently has led some anti-Ho nationalists to believe that the French may be negotiating clandestinely with Ho Chi Minh. However, Bollaert has declared that representatives of "totalitarian" organizations will not be included in the groups with which the French are ready to treat and Premier Schuman has insisted that the policy as stated by Andre Marie and acceded to by the French Assembly will stand. Notwithstanding these statements by Bollaert and Schuman, it can be expected that French policy will remain indecisive and that the situation in Indochina will continue to deteriorate.

INDONESIA

US-sponsored compromise agreement possible. Unless precipitate action "A" by the Dutch or Republican Government destroys any basis for the continuation of negotiations the US Delegation of the UN Good Offices Committee (US/GOC) may still have an opportunity to present a compromise agreement. After the Netherlands Government had completed a draft agreement for settlement of the Indonesian question, the body of this agreement, minus its detailed annexes, was shown in strict confidence to US/GOC on 31 August. At the time of presentation US/GOC was unable to make a complete analysis of the paper inasmuch as the missing annexes contained information pertinent to key issues of the Dutch-Republican dispute. However, a study of the body of the agreement convinced US/GOC that this draft would not be acceptable to the Republican Delegation even as a basis for opening discussions since it made no concessions to Republican desires. In order to offer the weakening Republican Government a more acceptable substitute on which to resume negotiations, US/GOC has formulated a draft agreement of its own which is based, in large part, on the US-Australian working paper which was presented to both parties last June. US representatives in Indonesia believe, because of the internal crisis in the Republican Government, that any effective proposals will have to be presented for GOC discussion and implementation within the next few weeks.

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SIAI

UK and Siam cooperate on border control. Insurgent bands fleeing UK police action in Malay are clashing with Siamese border authorities and are reported to have established a terrorist administration in south Siam. The Government of Siam, however, is believed to be capable of maintaining control under present conditions. Nevertheless, to achieve maximum control, Siamese armed forces have established liaison with the British Malay headquarters in an effort to diminish movements of the invading Chinese Communist guerrillas. The Siamese Government has granted the UK permission to pursue the insurgents into Siam but only insofar as use of the Siamese east-west border road system is required. Meanwhile, a rapid and cordial settlement of claims for casualties and damage suffered from recent UK air operations over southern Siam indicates an amenable Siamese attitude and presages full cooperation with the UK in controlling the common border. "B"

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The [REDACTED] Siamese Government may be expected to capitalize on the south Siam situation by amplification of the claim that Siam is the anti-Communist bulwark of Southeast Asia. It is probable, for example, that Siam will repeat more strongly a previously refused request for US assistance in modernizing the Siamese armed forces along US lines.

RUZ'A

Request for arms received by US Embassy. On 4 September the US received a request through the US Embassy in Rangoon to supply the Burmese Government with 5,000 carbines, 2,250,000 rounds of ammunition and 150 jeeps with two years reserve of spare parts. The request for these items which are available only in the US, has the support of the British Ambassador to Burma. The US Embassy, Rangoon was at first inclined to recommend approval, but with the development of serious difficulties between Karens and Burmans the Embassy has recommended delaying action until there is clearer evidence that the arms would be used to suppress Communists. "A"

Karen-Burman troubles add to confusion. The Karen minority problem, which has been potentially explosive ever since Burma became independent because of centuries of animosity between Karens and Burmans, has now become extremely serious. On 1 September, the Karens of the Tenasserim Division of Southern Burma, rebelled against the Burmese Government and, with the aid of Karen members of the Union Military Police, captured the important towns of Moulmein and Thaton. The rebellion was precipitated by the attempts of unpopular and untactful Government officials to disarm local Karen village guards. Although the intervention of Karen leaders has at least temporarily halted the uprising, the danger of Karen-Burman communal strife has by no "B"

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BURMA (continued)

means been removed. The development of such a conflict would make the present Government's already precarious position even more untenable, and almost insure its early overthrow. The result would be the breakdown of all administration and complete chaos.

The Karen National Union (KNU), which is supported by a majority of the estimated 2½ million Karens, claims to be in control of large areas of Eastern and Southern Burma. The KNU is strongly anti-communistic, and does not desire to fight the Government so long as communism continues to be suppressed. Nevertheless, the KNU is obviously taking advantage of the Government's difficulties to press its own demands for an independent state or a semi-independent state in a loose federation. Although Karen demands are impractical largely because the area claimed would contain a predominantly Burman population, Prime Minister Thakin Nu has agreed to establish a six-man committee, including three Karens, to expedite a settlement of the Karen demands. It is also possible that a member of the KNU will be given the post of Minister for Karen Affairs in the cabinet.

So far, both the Government and the KNU have exercised considerable restraint and have been disposed to negotiate. Thakin Nu has been consistently conciliatory towards the Karens and the KNU has often disavowed the use of violence to gain its ends. It would seem, at this time, that both parties must realize the necessity of compromise. The Government cannot afford the development of serious conflicts between Karens and Burmans as a considerable portion of the military forces now engaged in suppressing the Communist-Peoples' Volunteer Organization insurrections are Karens. In fact, Lt. Gen. Smith Dun, the Karen Supreme Commander of the Burmese military forces, has stated that he would never lead the army against his own people. Therefore, in event of Karen-Burman friction most of these troops would either desert to defend their native villages or turn upon the Government. The KNU leaders no doubt realize that if the present Government fails, it will probably be replaced by another far more to the left and their desires would be further removed from realization. If the Karens support the Government, after obtaining as many concessions as possible from it, they can use such support for bargaining purposes in the future. It would appear, therefore, that it is probable that a modus vivendi will be reached in which some of the Karen demands will be met. On the other hand, it is possible that the Karens will be intransigent in their demands because they fail to see any difference between the ideologies of the Socialist Government and the Communists, and fear that, unless they are given independence, they will be persecuted by a reunited Communist-Socialist coalition. In any case, since neither the Government nor the KNU are capable of effectively controlling their respective extremist elements, the recurrence of inflammable incidents leading to the most serious consequences is definitely a continuing possibility.

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PHILIPPINES

Huk leader urges support of Soviet policy. The amnesty merry-go-round in the Philippines has now entered a decisive stage. Huk leader Luis Taruc, a self-avowed Communist but generally considered nationalistically-inclined, in a statement on 7 September, appears to have broken completely with Philippine government policy and to have allied himself with that of the USSR. In a letter allegedly written by Taruc to a leading Manila newspaper, he urged the Filipino people to support Soviet policy in Asia and stated that in the event of war between the United States and Russia, "an invasion of our soil by Russians would not be an act against the Filipino people but against American militarists." Although Taruc has been consistently and increasingly anti-US during past months, he has previously disavowed Moscow affiliations. Public reaction in the Philippines to Taruc's current stand will undoubtedly be adverse and will probably result in a renewal of the Government's policy of strong military action against the Hukbalahap.

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